IRELAND

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Key Economic Indicators

(Millions of U.S. Dollars unless otherwise indicated)

	1996	1997	1998 1/
Income, Production and Employment:			
Nominal GDP 2/	61,443	65,045	68,974
Real GDP Growth (pct) 3/	7.4	9.8	10.2
GDP By Sector 2/:			
Agriculture	4,646	4,280	N/A
Industry	22,883	25,268	N/A
Services	31,216	32,440	N/A
Government	2,968	3,057	N/A
Per Capita GDP (US$)	18,956	20,031	20,517
Labor Force (000's)	1,508	1,539	1,581
Unemployment Rate (pct) 4/	11.5	10.2	9.2
Money and Prices (annual percentage growth):			
Money Supply Growth (M3e) 5/	15.7	19.1	19.0
Consumer Price Inflation	1.6	1.5	3.0
Exchange Rate (IP/US$)			
Official	0.62	0.66	0.70
Parallel	N/A	N/A	N/A
Balance of Payments and Trade:			
Total Exports FOB 6/	49,178	55,489	61,143
Exports to U.S.	4,502	6,072	9,045
Total Imports CIF 6/	35,163	38,641	42,530
Imports from U.S.	5,539	5,882	8,038
Trade Balance	14,016	16,848	18,613
Balance with U.S.	-1,037	190	1,005
External Public Debt 7/	19,341	18,886	N/A
Fiscal Deficit/GDP (Pct) 8/	-0.9	0.9	1.8
Current Account Balance/GDP (pct)	2.7	2.8	2.0
Debt Service Payments/GDP (pct)	6.2	5.7	N/A
Gold and Foreign Exchange Reserves 7/	7,936	7,047	7,810

Aid from U.S. 9/	5	5	5
Aid from Other Sources 10/	1,142	1,256	1,300

1/ U.S. Embassy forecasts.
2/ GDP at factor cost.
3/ GDP at constant market prices (local currency).
4/ ILO definition.
5/ Broad money.
6/ Merchandise trade.
7/ Foreign currency denominated debt plus non-resident holdings of Irish Pound denominated debt; end year.
8/ General government.
9/ Each year the United States contributes 19.6 million dollars to the International Fund to Ireland (IFI). A quarter of this amount is estimated to be spent in the Republic of Ireland's border constituencies.
10/ These figures include transfers from the EU's European social fund, regional development fund, cohesion fund and special programme for Northern Ireland and the border constituencies, as well as the contributions from countries other than the United States to the IFI.

Sources: Central Bank Of Ireland (CBI); Central Statistics Office (CSO); Irish Trade Board (ITB); National Treasury Management Agency (NTMA).

1. General Policy Framework

In 1998, Ireland is expected to have the fastest growing economy in the industrialised world for the fifth consecutive year. Most commentators trace the origins of Ireland's "Celtic Tiger" economy to the economic policy mix put in place in the late 1980s and maintained by successive governments since then. This included: (1) tight control of public spending in order to reduce government borrowing and taxation on corporate and personal incomes; (2) a de facto incomes policy, operated through national economic programs agreed by the government, employers and trade unions, in order to limit wage growth and boost employment creation; (3) the ten percent corporate tax rate for international manufacturing and service companies, together with generous grants to export-oriented multinational firms who locate in Ireland; and (4) high levels of investment in education, training and physical infrastructure, much of it funded by generous transfers from the European Union. In contrast to the economic policies of the 1970s and early 1980s, the policy mix in the last decade has centered on supply-side reforms to the economy, aimed at improving the attractiveness of Ireland as a location for overseas investment and increasing competitiveness of Irish-made goods in the international marketplace.

The results have been impressive. Real Irish GDP growth has averaged almost nine percent since 1994, and real Irish incomes have increased by almost two thirds since the beginning of the decade. Fast growth has been accompanied by increasing openness to the world economy. In 1997, total imports and exports were equivalent to over 155 percent of GDP, compared with under 100 percent a decade earlier. Thanks in large part to the strong performance of Irish-based U.S. and other multinational firms, Ireland now enjoys a huge surplus in merchandise trade (equivalent to 23 percent in GDP in 1997), which more than offsets deficits in services and factor incomes. Despite fast growth, inflation remained low, averaging just 2.0 percent in 1994-97, although rising import prices as a result of the weak Irish pound in 1996-97 have seen inflation accelerate to over 3.0 percent in 1998. Rising disposable incomes, low interest rates, lower taxes, fast employment and strong growth in property prices have together resulted in historically-high high levels of consumer and business confidence.

After the runaway public deficits of the mid 1980s, the government has since maintained a more responsible fiscal position. Fast economic growth, combined with limited growth in public spending, has kept Ireland's general government deficit below 2.5 percent of GDP since 1989. This was consistent with the provisions of the 1992 Maastricht Treaty, which required EU nations to keep their fiscal deficits below three percent of GDP, and allowed Ireland to be confirmed last May, along with ten other EU nations, as a starting participant in the final stage of Economic and Monetary Union (EMU), beginning in 1999.

The small fiscal deficits, together with fast growth in national income, have reduced Ireland's debt/GDP ratio from over 125 percent in 1987 to 63 percent at the end of 1997. The Irish Department of Finance expects the debt ratio to fall to just 55 percent by the end of 1998. In nominal terms, national debt at the end of 1997 amounted to just over 49 billion dollars (using average 1997 exchange rates). Of this, 27 percent was denominated in a foreign currency, down from 41 percent at end 1993. Most new government borrowing, used to refinance maturing debt, is made through the sale of Irish Pound-denominated securities, although a significant proportion of these are purchased by non-residents.

Personal income and consumption taxes form the bulk of total government tax revenue. There are two personal tax rates: the standard 24 percent rate, and the higher 46 percent rate. The higher rate kicks in at slightly below the median industrial wage (about 23,000 dollars). In a bid to secure continued trade union commitment to modest nominal wage increases and to make low-paid jobs more attractive to the unemployed, the current government is committed to lowering personal tax rates and expanding income tax credits significantly over the coming years. The rate of value added tax (consumption tax), at 21 percent, is high by European standards. VAT rates in EU members states, including Ireland, can be raised, but not lowered, without EU approval.

The standard rate of corporate tax is 32 percent. Corporate taxation, however, makes a relatively modest contribution to public finances, mainly because of the special ten percent rate available to companies producing internationally-traded manufactured goods and services, and to companies operating in certain industrial zones. Most Irish-based, U.S.-owned businesses pay corporate tax at the special ten percent rate. In response to European Commission criticism that the special rate of corporate tax constituted a subsidy to industry, the government is committed to harmonizing the special and standard rates of corporation tax at 12.5 percent by 2003, thereby eliminating the differential treatment.

Beginning in 1999, monetary policy in Ireland, as in the other ten EU states adopting the single European currency, will be formulated by the European Central Bank (ECB) in Frankfurt. The Irish Central Bank will continue to exist as a constituent member of the European System of Central Banks (ESCB) and will be responsible for implementing a common European monetary policy in Ireland (i.e. providing and withdrawing liquidity from the Irish inter-bank market at an interest rate set by the ECB.) The governor of the Irish Central Bank (currently Maurice O'Connell) will, ex officio, have one vote in the ECB's 17-member monetary policy committee, although each national central bank governor in the committee will be expected to disregard the individual performances of their own national economies in formulating a common monetary policy for the euro area.

The 1992 Maastricht Treaty identifies price stability as the primary objective of monetary policy under EMU. Price stability is defined by the ECB as a year-on-year increase in the harmonized index of consumer prices for the euro area of below two percent. In making its assessment of future consumer price movements, the ECB will take account of trends in money supply, private sector credit, and a range of intermediate price indicators. The primary instrument of monetary policy is expected to be open market operations by the ECB and the national central banks (purchases and repurchases of government securities at a discount rate announced weekly.)

2. Exchange Rate Policies

At the beginning of 1999, the Irish Pound will cease to exist as Ireland's national currency, and the new single European currency, the euro, will become the official unit of exchange. Although Irish currency will continue to circulate until the introduction of euro notes and coins in 2002, it will be no more than a "denomination" of the euro, with an irrevocably fixed exchange rate to the euro and the nine other participating currencies. The conversion rate between the Irish Pound and the euro will likely to be in the region of euro 1.27: IP1.

The euro will be freely convertible for both capital and current account transactions. The Maastricht Treaty makes exchange rate policy for the euro the responsibility of EU finance ministers, subject to the proviso that exchange rate policy does not threaten price stability in the euro area. Unlike any other euro participant, Ireland's largest trading partner, the UK, remains, for the foreseeable future, outside the single currency. Ireland's loss of control over its exchange rate with UK Sterling poses risks to Irish exports to the UK, and places pressure on Irish exporters to increase the flexibility of their cost base, particularly labor costs. The Irish Pound averaged US$1:IP0.66 in 1997, and is expected to average in the region of US$1:IP0.70 in 1998.

3. Structural Policies

Economic policy in Ireland is geared primarily towards lowering unemployment and raising average living standards, although income redistribution, social cohesion and regional development are also important goals. After the failure of expansionary fiscal policies in the late 1970s to stimulate growth, government policymakers have focused on supply-side measures aimed at creating an environment attractive to private enterprise, and in particular to inward direct investment by export-oriented multinationals. The most important policies in this regard have been the following:

(a) tight control over the public finances in order to maintain macroeconomic stability (in 1997 Ireland recorded a general government surplus for the first time in over 50 years);

(b) the development of a social consensus on economic policy through national wage agreements negotiated by the government, employers and trade unions. The latest agreement, partnership 2000, took effect at the beginning of 1997 and trades off continued moderation by trade unions in wage demands against substantial cuts in personal taxation;

(c) the promotion of greater competition and liberalization in the economy, and reducing the size of state-owned industry, particularly in the provision of transport, energy and communications services;

(d) the availability of a special ten percent rate of corporate taxation and generous grants to attract foreign investment;

(e) a commitment to the single European market and to Irish participation in EMU;

(f) high levels of investment in education and training -- of all OECD countries only the Japanese workforce has a higher proportion of trained engineers and scientists;

(g) and improvements in physical infrastructure -- structural investment between 1993 and 1999 is expected to total around 16 billion dollars (almost 4,500 dollars per head). Much of this will have been funded by generous EU transfers.

The success of the above policies in attracting foreign investors and raising incomes has had two distinct effects on U.S. exports to Ireland: first, over 500 U.S. firms are now located in Ireland. These companies import a large proportion of their capital equipment and operating inputs from parent companies and other suppliers in the United States. Accordingly, the largest component of U.S. exports to Ireland is office machinery and equipment, followed by electrical machinery and organic chemicals. Furthermore, as U.S. firms in Ireland become increasingly integrated with the local economy, sales by U.S. parent companies to local Irish enterprises are believed to have increased dramatically in recent years, although the data on this remains sketchy. Second, the fast growth in both personal incomes and corporate profitability in Ireland has led to a strong increase in demand for U.S. capital and consumer goods from Irish companies and workers. The combination of the above two effects has seen U.S. exports to Ireland increase by a factor of five between 1983 to 1997. As a result, the United States has become Ireland's second largest trading partner, behind only the UK.

4. Debt Management Policies

The National Treasury Management Agency (NTMA) is the state agency responsible for the management of the government debt. Ireland's general government debt at end 1997 amounted to just over 49 billion dollars (using average 1997 exchange rates), equivalent to just over 63 percent of GDP. The bulk of the national debt was accumulated in the 1970's and early 1980's, partly as a result of high oil prices, but more generally as a result of expanding social welfare programs and public-sector employment. Increased fiscal rectitude since the late 1980s means, however, that Ireland was the only EU member state to have a lower debt/GDP ratio in 1997 than it had in 1991. Foreign currency debt at the end of 1997 made up approximately 27 percent of the total. This is down from just over 41 percent at the end of 1993, reflecting the government's strong financial position and Ireland's substantial balance of payments surplus.

Most new government borrowing, mostly used to roll-over maturing debt, is financed through the issuance of Irish Pound securities, although a substantial proportion of these are purchased by non-resident investors. The total debt servicing cost in 1997 was just over four billion dollars, equivalent to 5.7 percent of GDP. Debt servicing costs are expected to fall significantly as a proportion of national income and total government expenditure in the coming years, reflecting lower interest rates, falling nominal debt levels and fast Irish income growth.

This should pave the way for further reform of the personal taxation system, thus increasing consumer demand for U.S. exports of goods and services.

5. Aid

In 1997, the United States contributed 19.6 million dollars to the International Fund for Ireland (IFI), of which around five million is estimated to have been spent in the border constituencies of the Republic of Ireland, with the balance being spent in the UK Province of Northern Ireland.

6. Significant Barriers to U.S. Exports

The United States is Ireland’s second largest source of imports, behind only the UK. Total exports from the United States into Ireland in 1997 were valued at $5.9 billion (15 percent of total Irish imports), up from just over $3 billion in 1990. Irish exports to the United States have, however, increased at an even faster rate over the same period. With Irish exports to the U.S. in 1997 standing at $6.1 billion, the trade balance between the two countries in 1997 favored Ireland by almost $200 million -- Ireland’s first trade surplus with the United States in recent history.

As a member of the EU, Ireland administers tariff and non-tariff barriers in accordance with applicable EU policies. With regard to trade in services, Ireland maintains some barriers in the aviation industry: airlines serving Ireland may provide their own ground handling services, but are prohibited from providing similar services to other airlines. The bilateral U.S.-Ireland Aviation Agreement also places some restrictions on aviation services between the United States and Ireland. Under the agreement, any carrier providing north Atlantic services to Dublin airport, must also provide service to Shannon airport on Ireland’s west coast, making the Dublin service unprofitable for some U.S. airlines.

Ireland’s markets for electricity and gas will remain closed to competition until early in the next decade, when EU energy liberalization directives take effect. At least one U.S. firm is likely to enter the Irish electricity market when competition is introduced.

The market for telecommunications services in Ireland will be fully liberalized from December, 1998 -- more than one year ahead of the timetable agreed with the European Commission in 1996. Until now, the state-owned telecommunications company, Telecom Eireann, has been the monopoly provider of voice telephony services to the general public, although the market for leased lines and other data transmission services was progressively liberalized earlier in the 1990s. Potential new entrants into the Irish market, which are likely to include U.S. firms, will need to carefully examine the framework for the new competitive environment currently being prepared by the Irish telecommunications regulator. Particular attention will be paid to rules pertaining to the interconnection rates for new entrants to Telecom

Eireann's existing infrastructure, and the "universal service obligations" to compel new entrants to deliver service to remote areas.

Although some liberalization has taken place in recent years, Ireland still maintains some of the strictest animal and plant health import restrictions in the EU. These, together with EU import duties, effectively exclude many meat-based foods, fresh vegetables and other agricultural exports from the United States. Restrictions also apply to foods containing genetically modified organisms, bananas from outside the Caribbean area, cosmetics containing specified risk materials, and some wines, although as with other goods, these policies are determined at EU level.

Ireland has been a member of the World Trade Organization (WTO) since it came into effect on January 1, 1995. The WTO agreement was ratified by the Irish Parliament in November 1994. As member of the EU, however, Ireland participates in a large number of EU regional trade agreements, which may distort trade away from countries with whom Ireland trades purely on an MFN, non-preferential WTO basis.

7. Export Subsidies Policies

The government generally does not provide direct or indirect support for local exports. However, companies located in designated industrial zones, namely the Shannon Duty Free Processing Zone (SDFPZ) and Ringaskiddy port, receive exemptions from taxes and duties on imported inputs used in the manufacture of goods destined for non-EU countries. Furthermore, Ireland applies a special ten percent rate of corporation tax (the standard rate is 36 percent) to companies producing internationally-traded manufactures and services and to companies operating out of the SDFPZ and the international financial services center in Dublin. Under pressure from the European Commission, which viewed the tax as a subsidy to industry, the government recently committed to eliminating the special ten percent rate of tax by harmonizing the special and standard rates (currently 32 percent) of tax at 12.5 percent by 2003, thereby abolishing the differential treatment.

In May, 1998, the United States instituted WTO dispute settlement consultations against Ireland in relation to Ireland’s "special trading house" tax regime. Under section 39 of the Irish Finance Act, 1980, the special ten percent rate of corporation tax is available to "special trading houses," which are companies that act as an access mechanism and marketing agent for Irish-manufactured products in foreign markets. Following the U.S. action, the Irish Government announced in June, 1998, its intention to seek parliamentary approval for the termination of the scheme "at the earliest opportunity." Trading houses already licensed under the scheme will continue to receive the tax break until December 31, 2000, when the scheme is due to expire in any case under existing EU directives.

Other activities that qualify for the special ten percent rate of corporate taxation include design and planning services rendered in Ireland in connection with specified engineering works outside the European Union. This applied mainly to services provided by engineers, architects and quantity surveyors. Profits from the provision of identical services in connection with works inside the EU are taxed at the standard 32 percent rate.

Since January 1992, the government has provided export credit insurance for political risk and medium-term commercial risk in accordance with OECD guidelines. As a participant in the EU's common agricultural policy, the Irish Department of Agriculture, Food and Forestry administers cap export refund and other subsidy programs on behalf of the EU Commission.

8. Protection of U.S. Intellectual Property

Copyright: Ireland is a member of the World Intellectual Property Organization and a party to the International Convention for the Protection of Intellectual Property (TRIPS). Following intensive negotiations with the U.S. Government in 1997, the Irish Government committed to enacting new copyright legislation by December 31, 1998, to bring Ireland's laws into line with its obligations under the WTO TRIPS agreement. Dublin also agreed to enact a new smaller "break-out" copyright bill in advance of comprehensive legislation which would address the U.S. Government's most pressing concerns with regard to Irish copyright protection. This break-out bill was enacted in June 1998, and, among other provisions, strengthened the presumption of copyright ownership and increased penalties for copyright violation.

Examples of TRIPS inconsistencies in current Irish law which the government is committed to addressing in comprehensive reform legislation by the 1999 deadline include absence of a rental right for sound recordings, no "anti-bootlegging" provision, and low criminal penalties which fail to deter piracy, all of which have contributed to high levels of piracy in Ireland (industry sources estimate that up to 70 percent of personal computer software used in Ireland is pirated.) In light of government commitments to enact new copyright legislation by December 31, 1998, USTR suspended WTO dispute settlements proceedings against Ireland and has downgraded Ireland from "Watch List" to "Priority" status in its annual "Special 301" review of intellectual property protection by U.S. trading partners. At the time this report was written, it was uncertain if the Irish Government would meet the target for enactment of the new legislation.

Patents: As part of the comprehensive copyright legislation to be passed before the year-end, the government is also committed to addressing non-TRIPS conforming provisions of Irish patent law. Ireland's Patent Law, as it currently stands, fails to meet TRIPS obligations in at least two respects: (1) the compulsory licensing provisions of the 1992 Patent Law are inconsistent with the "working" requirement prohibition of TRIPS articles 27.1 and the general compulsory licensing provisions of article 31; and (2) compulsory licensing conditions provided for in the 1964 Patent Law, which continues to apply in some applications processed after December 20, 1991, do not conform to the non-discrimination requirement of TRIPS article 27.1.

Trademarks: In accordance with EU Council Directive 89/104/European Economic Community (the harmonization of trademark laws), and EU Council Regulation number 40/94 (community trademark and the registration of trademarks in services industries), new legislation was required to replace the Trademarks Act of 1963. The Trademarks Act of 1996 was signed into law in July of that year. There appear to be no problems with the new law.

9. Worker Rights

a. The Right of Association: The right to join a union is guaranteed by law, as is the right to refrain from joining. The Industrial Relations Act of 1990 prohibits retribution against strikers and union leaders. About 55 percent of workers in the public sector and 45 percent in the private sector are trade union members. Police and military personnel are prohibited from joining unions or striking, but they may form associations to represent them in matters of pay, working conditions, and general welfare. The right to strike is freely exercised in both the public and private sectors. The Irish Congress of Trade Unions (ICTU), which represents unions in both the Republic and Northern Ireland, has 65 member-unions with 682,211 members.

b. The Right to Organize and Bargain Collectively: Labor unions have full freedom to organize and to engage in free collective bargaining. Legislation prohibits antiunion discrimination. In recent years, most terms and conditions of employment in Ireland have been determined through collective bargaining in the context of a national economic pact. The current three-year agreement, partnership 2000, which expires in 2000, trades off moderation by trade unions in wage demands against cuts in personal taxation by the government. Employer interests in labor matters are generally represented by the Irish Business and Employers Confederation.

The Labor Relations Commission, established by the Industrial Relations Act of 1990, provides advice and conciliation services in industrial disputes. The commission may refer unresolved disputes to the labor court. The labor court, consisting of an employer representative, a trade union representative, and an independent chairman, may investigate labor disputes, recommend the terms of settlement, engage in conciliation and arbitration, and set up joint committees to regulate conditions of employment and minimum rates of pay for workers in a given trade or industry.

c. Prohibition of Forced or Compulsory Labor: Forced or compulsory labor is prohibited by law and does not exist in Ireland.

d. Minimum Age for Employment of Children: New legislation introduced in 1997 prohibits the full-time employment of children under the age of 16, although employers may hire 14 or 15 year olds for light work on school holidays, or on a part-time basis during the school year. The law also limits the number of hours which children under age 18 may work. These provisions are enforced effectively by the Irish Department of Enterprise, Trade and Employment.

e. Acceptable Conditions of Work: After persistent lobbying by trade unions, in April 1998, the Irish Government announced proposals for the introduction of a national hourly minimum wage of IP 4.40 (around US$ 6.70), beginning in April 2000. Although minimum wages already exist in certain low-paid industries, such as textiles and cleaning, these only apply to a relatively small proportion of the workforce. Employers are opposed to the government's proposals, which they believe will lead to the destruction of jobs in labor-intensive manufacturing industries. The full minimum wage will not apply to trainees or workers under 18 years of age.

The standard workweek is 39 hours. In May 1997, a European Commission directive on working time was transposed into Irish law, through the “Organization of Working Time Act, 1997." The Act sets a maximum of 48 working hours per week, requires that workers be given breaks after they work certain periods of time, sets limits to shift work, and mandates four weeks annual holidays for all employees by 1999. Worker rights legislation increasingly is being set at a European level, and further directives in this area, including rights for part-time workers and the right of equal treatment, can be expected in 1999.

f. Rights in Sectors with U.S. Investment: Worker rights described above are applicable in all sectors of the economy, including those with significant U.S. investment.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis -- 1997

(Millions of U.S. Dollars)

Category		Amount
Petroleum		(1)
Total Manufacturing		8,462
Food & Kindred Products	635	
Chemicals & Allied Products	2,768	
Primary & Fabricated Metals	157	
Industrial Machinery and Equipment	561	
Electric & Electronic Equipment	1,749	
Transportation Equipment	6	
Other Manufacturing	2,586	
Wholesale Trade		352
Banking		(1)
Finance/Insurance/Real Estate		5,113
Services		321
Other Industries		22
TOTAL ALL INDUSTRIES		14,476

(1) Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.